

INDIVIDUAL ESTIMATED TAX

Estimated tax is the method used to pay tax on income that is not subject to withholding. Wages typically have withholding, but earnings from self-employment, interest, dividends, rents, etc. would be subject to estimated tax. In most cases, you will pay estimated tax if you expect to owe more than \$1,000 in tax, after subtracting any withholding or refundable credits you might have. If you file forms1040-ES with the IRS, typically you would pay estimated tax to the Colorado Department of Revenue. Taxpayers who underpay estimated tax may be subject to a penalty. [§39-22-605, C.R.S.]

NET COLORADO TAX LIABILITY

The net Colorado tax liability (original tax return, amended return, and any tax assessment) for purposes of the estimated tax computation is defined as the total amount of Colorado tax, alternative minimum tax and recapture of prior year credits that are reported on the Colorado Form 104, less all credits other withholding and estimated tax credits.

REQUIRED ESTIMATED PAYMENTS

The required annual amount to be paid is the lesser of:

- 1. 70% of net Colorado tax liability.
- 2. 100% of preceding year's net Colorado tax liability. (This amount only applies if the preceding year was a 12-month tax year, the individual filed a Colorado return, and the federal adjusted gross income for the preceding year was \$150,000 or less; \$75,000 or less if married filing separate.)
- 3. 110% of preceding year's net Colorado tax liability. (This amount only applies if the preceding year was a 12-month tax year, the individual filed a Colorado return, and the federal adjusted gross income for the preceding year was more than \$150,000; more than \$75,000 if married filing separate.)

The required estimated payment calculations in 2 and 3 above will apply to a taxpayer who filed a Colorado return for the preceding 12-month tax year even if the taxpayer was a part-year or nonresident of Colorado for that year.

SUBMITTING PAYMENTS

Estimated tax payments are due in four equal installments on April 15, June 15, September 15 of the tax year and January 15 of the following year. The payments will be due for an individual fiscal year filer on the 15th day of the 4th, 6th and 9th month of the tax year and 1st month of the following tax year. Payments will be credited against the earliest quarterly installment that is due for the tax year regardless of when the payment is received. Payments are submitted with the Estimated Income Tax Payment Voucher (104EP).

Withholding is treated as if paid 25% in each quarter unless the taxpayer establishes the dates on which the amounts were actually withheld. Wage withholding and other withholding amounts can be treated separately when determining whether to allocate 25% to each quarter or whether to allocate the credit to the quarter in which the amount was actually paid.

ANNUALIZED INCOME INSTALLMENT METHOD

Taxpayers who do not receive income evenly during the year (for example, taxpayers who own a seasonal business or receive a lump sum payment late in the year) and who elect annualized installments for the payment of their federal income tax may elect to use the annualized income installment method to compute their Colorado estimated tax payments. This method allows taxpayers to calculate each of their four required estimated payments separately based upon the amount of income they actually received in the months preceding the payment due date.

In order to calculate a required installment payment, a taxpayer must first compute their year-to-date taxable income, calculated from January 1 through the last day of the month preceding the payment due date. The taxpayer must then perform the following calculation, which is further detailed in Part 4 of Form 204 (see the table below for the applicable annualization factors and percentages).

Year-to-date taxable income

TIMES (x) the applicable annualization factor the 4.63% Colorado income tax rate

TIMES (x) the applicable percentage

MINUS (-) the total of any prior installment payments made for the tax year

EQUALS (=) the required installment payment amount

Installment due date	Taxable income calculated		Applicable annualization factor	Applicable percentage
	from	through		
April 15th	January 1	March 31	4	17.5%
June 15th	January 1	May 31	2.4	35.0%
September 15th	January 1	August 31	1.5	52.5%
January 15 of next year	January 1	December 31	1	70.0%

A schedule detailing the year-to-date taxable income calculations must be made available to the Colorado Department of Revenue upon request in order to use this annualized method.

FARMERS AND FISHERMEN

Farmer or fisherman means an individual whose gross income from farming or fishing is at least 2/3 of their total gross income for the tax year or the preceding tax year. See IRS Publication 505 for assistance in calculating your gross income from farming and fishing. The department will validate farming/fishing income with the IRS.

The required annual amount to be paid by a farmer or fisherman is the lesser of:

- 50% of actual net Colorado tax liability, or
- 100% of preceding year's net Colorado tax liability (This amount only applies if the preceding year was a 12-month tax year and the individual filed a Colorado return.)

Farmers and fisherman are not required to make four estimated tax payments, but rather are only required to make one payment, due January 15 of the following tax year, for the entire required annual amount.

ESTIMATED TAX PENALTY

The estimated tax penalty will be assessed if the required estimated tax payments are not paid in a timely manner. [§39-22-605(3), C.R.S.] The penalty is actually an assessment of interest, calculated from the due date until the date of payment, for any underpayment of the amount due. See FYI General 11 to determine the applicable interest rate. Taxpayers can calculate the estimated tax penalty they owe using Form 204.

The estimated tax penalty will not be assessed if any of the following conditions are met:

- 1. No penalty is due if the net Colorado tax liability minus any prepayments and credits, other than the estimated tax payments and credits, is less than \$1,000.
- 2. No penalty is due if the taxpayer was a full-year resident for the preceding 12-month tax year and the net Colorado tax liability in that year was -0-.
- 3. No penalty is due if the taxpayer is a farmer or fisherman and files a return with full payment of any tax due by March 1 of the following tax year.

If the tax return is filed and any tax due is paid by January 31 of the following tax year, no penalty will be computed based on any underpayment of the fourth quarter installment payment.

JOINT RETURNS

Any taxpayer who jointly files their estimated tax with the IRS must also jointly file estimated tax with the State of Colorado. Exercise care when completing both the 104EP and 104 forms so that Social Security numbers are used in the same order on all forms, especially when a tax overpayment is carried forward to the next tax year as an estimate tax payment.

Estimated tax payments are applied to the account belonging to the Social Security number that is listed first on the 104EP payment voucher.

If, by mutual agreement between the taxpayers or in the case of a surviving spouse, the payment needs to be applied in a manner other than originally requested on the 104EP make a written request to the department prior to the filing of the Colorado Income Tax Return (104).

C CORPORATION ESTIMATED TAX

Corporations are required to pay Colorado estimated income tax during the taxable year if it can reasonably be anticipated that the corporation's Colorado tax liability for the tax year will exceed \$5,000. [§39-22-606, C.R.S.]

Estimated tax payments must be submitted in the same manner (separate, consolidated, combined) and using the same account number that the corporation expects to use in filing the income tax return. If payments are made on an account number other than the number used to file the income tax return, the Department of Revenue must be notified of the discrepancy in writing prior to the filing of the tax return.

COLORADO TAX LIABILITY

The Colorado tax liability for purposes of the estimated tax computation is defined as the total amount of Colorado tax plus the recapture of prior year credits less all income tax credits other than withholding credits and estimated tax credits.

Required Estimated Payments

The required annual amount to be paid is the lesser of:

- 1. 70% of actual Colorado tax liability, or
- 2. 100% of preceding years Colorado tax liability. Applies only if:
 - the preceding year was 12-month tax year, and
 - the corporation filed a Colorado return, and
 - the corporation is not defined under section 6655 of the federal IRS code as a large corporation *

*Large corporations can base their first quarter estimated tax payment on 25% of the previous year's tax liability. However, future payments must be based on the actual tax liability for the current tax year and any underpayment occurring in the first quarter as a result of this estimation must be repaid with the second quarterly payment.

Submitting Payments

Estimated tax payments are due in four equal installments on April 15, June 15, September 15 and December 15 of the tax year. The payments will be due for a fiscal year filer on the 15th day of 4th, 6th, 9th and 12th month of the tax year. The payments will be due for a short tax year on the 15th day of 4th, 6th, 9th months, whichever apply, plus a final payment on the 15th day of the last month of the tax year. In the case of a short tax year, the required annual payment will be divided evenly over the required number of installment payments.

Example: ABC Corporation filing a return for the tax year February 1 to September 30. Estimated tax payments are due on May 15, July 15, and Sept. 15.

Each required installment payment will be 25% of the required annual payment. Payments will be credited against the earliest quarterly installment that is due for the tax year regardless of when the payment is received. Payments are submitted with the Corporate Estimated Tax Payment Voucher (112EP).

Annualized Income Installment Method

Taxpayers who do not receive income evenly during the year and who elect annualized installments or adjusted seasonal installments for the payment of their federal income tax may elect to use the annualized income installment method to compute their Colorado estimated tax payments.

In order to calculate a required installment payment, a taxpayer must first compute their year-to-date taxable income, calculated from the first day of their tax year through the last day of the month preceding the payment due date. The taxpayer must then perform the following calculation, which is further detailed in Part 4 of Form 205 (see the table below for the applicable annualization factors and percentages).

Year-to-date taxable income

TIMES (x) the applicable annualization factor the 4.63% Colorado income tax rate

TIMES (x) the applicable percentage

MINUS (-) the total of any prior installment payments made for the tax year

EQUALS (=) the required installment payment amount

Installment due date	Taxable income calculate	ed	Applicable annualization factor	Applicable percentage
	from	through		
April 15th	January 1	March 31	4	17.5%
June 15th	January 1	May 31	2.4	35.0%
September 15th	January 1	August 31	1.5	52.5%
December 15th	January 1	November 31	1	70.0%

These dates must be adjusted accordingly for fiscal year filers.

If tax is computed by apportioning income, apportionment factors must be computed for each quarter in order to use the annualized income installment method. Use of estimated or prior year factors will not be accepted.

A schedule detailing the year-to-date taxable income calculations must be made available to the Colorado Department of Revenue upon request in order to use this annualized method.

ESTIMATED TAX PENALTY

The estimated tax penalty for C corporations will be assessed if the required estimated tax payments are not paid in a timely manner. [§39-22-606(3), C.R.S.] The penalty is calculated by charging the appropriate interest rate against the number of days the unpaid estimated tax is delinquent. See year-specific Form 205 for details.

No penalty is due if the Colorado tax liability is less than \$5,000.

A short year tax liability must be extrapolated over a 12-month year in applying The \$5,000 threshold exception. Multiply the tax due by 12, then divide by the number of months in the short tax year in order to determine whether the tax due is under the \$5,000 threshold.

If a short taxable year is involved, the income must be placed on an annual basis, in which case the \$5,000 requirement for filing estimated tax payments will be the same as for a full-year taxpayer.

ESTATES AND TRUSTS

Colorado law does not require fiduciaries for estates or trusts to make estimated tax payments. If a fiduciary wants to pay estimated tax, payments must be submitted with the Estate/Trust Estimated Tax Payment Voucher (105EP).

COMPOSITE RETURNS

A composite return is filed by a partnership or S corporation for nonresident partners and shareholders who do not have any other Colorado source income. If any individual included in the composite return will have a net Colorado income tax liability for the current taxable year in excess of \$1,000, estimated tax payments should be made for the composite return. Payments are submitted with the Estimated Tax Voucher (106EP). Any estimated tax penalty due with the composite return will be computed on the individual level using the Form 204.

GO GREEN WITH REVENUE ONLINE

Visit www.Colorado.gov\RevenueOnline to submit forms, remit payments and to monitor your tax account. Form 104EP is not required if electronic payment is remitted through this site. Please be advised that a nominal processing fee may apply. Or use EFT free of charge. EFT services require preregistration before payments can be made.

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter, or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having the authority to bind the Department, has not formally reviewed and/or approved these FYIs.